GENUITY INC.

COMBINED STATEMENTS OF OPERATIONS
(dollars in thousands, except per share data)

	Predecessor	Genuity				
	Six Months Ended June 30, 1997	Year Ended December 31,			Three Months Ended March 31,	
		1997	1998	1999	1999	2000
					(unaudited)	
Revenues						
Access	$ 94,126	$ 128,838	$ 350,777	$ 555,603	$ 128,038	$ 183,285
Hosting	9,601	9,690	33,469	48,811	10,028	21,692
Transport	—	41,920	46,876	64,483	13,535	23,625
Other	2,591	3,035	14,880	37,569	5,682	19,250
Total revenues	106,318	183,483	446,002	706,466	157,283	247,852
Operating Expenses						
Cost of goods sold	92,670	166,040	492,794	767,498	160,540	283,928
Selling, general and administrative	38,801	142,962	312,916	396,522	93,123	108,336
Depreciation and amortization	10,536	49,444	104,444	187,628	41,092	53,786
Total operating expenses	142,007	358,446	910,154	1,351,648	294,755	446,050
Operating Loss	(35,689)	(174,963)	(464,152)	(645,182)	(137,472)	(198,198)
Other Income (Expense)						
Interest expense, net	(478)	(1,346)	(20)	(183)	(434)	(2,973)
Other, net	(1,496)	1,814	(2,924)	(32)	(341)	(8,067)
Loss Before Income Taxes	(37,663)	(174,495)	(467,096)	(645,397)	(138,247)	(209,238)
Income Taxes	—	433	1,463	1,649	333	588
Net Loss	$(37,663)	$(174,928)	$(468,559)	$(647,046)	$(138,580)	$(209,826)
Basic and Diluted Loss Per Common Share	$ —	$ (9.58)	$ (25.67)	$ (35.44)	$ (7.59)	$ (11.49)
Basic and Diluted Weighted-Average Common Shares Outstanding	—	18,256	18,256	18,256	18,256	18,256
Pro Forma As Adjusted Basic and Diluted Loss Per Common Share (Note 15) (unaudited)	$ —	$ —	$ —	$ (3.37)	$ —	$ (1.09)
Pro Forma As Adjusted Basic and Diluted Weighted-Average Common Shares Outstanding (unaudited)	—	—	—	192,169	—	192,169

The accompanying notes are an integral part of these combined financial statements.

GENUITY INC.

COMBINED BALANCE SHEETS
(dollars in thousands)

	December 31,		March 31, 2000 (unaudited)	
	1998	1999	Actual	Pro Forma As Adjusted (Note 15)
Assets				
Current Assets:				
Cash and cash equivalents	$ 13,883	$ 6,044	$ 17,118	$2,400,763
Receivables, less allowances of $3,651, $5,550 and $4,476 (unaudited)	148,355	193,978	185,107	185,107
Receivables—affiliates	18,077	40,462	29,497	29,497
Note receivable—GTE	18,239	—	1,836	—
Other current assets	19,099	13,627	31,461	31,461
Total current assets	217,653	254,111	265,019	2,646,828
Property, Plant and Equipment, Net	908,980	1,520,934	1,629,391	1,629,391
Goodwill and Other Intangibles, Net	555,612	537,989	524,536	524,536
Other Assets	3,724	30,098	42,908	42,908
Total assets	$1,685,969	$ 2,343,132	$ 2,461,854	$4,843,663
Liabilities and Stockholder's Equity				
Current Liabilities:				
Short-term obligations, including current maturities	$ 20,499	$ 25,921	$ 74,220	$ 74,220
Note payable—GTE	—	136,484	—	—
Accounts payable	73,711	142,752	135,705	135,705
Accounts payable—affiliates	13,440	29,647	25,287	25,287
Accrued compensation and related liabilities	15,763	49,637	64,553	20,553
Accrued circuits	—	51,775	74,843	74,843
Accrued liabilities	41,008	78,937	52,555	52,555
Advanced billings	10,172	26,320	18,340	18,340
Total current liabilities	174,593	541,473	445,503	401,503
Long-Term Obligations	126,855	112,717	57,563	57,563
Employee Benefit Plan Obligations and Deferred Compensation	46,388	20,466	12,604	10,604
Other Liabilities	3,406	370	417	417
Total long-term liabilities	176,649	133,553	70,584	68,584
Stockholder's Equity:				
Class A common stock—$0.01 par value; authorized 1,600,000,000 shares; 173,913,000 shares issued and outstanding, pro forma as adjusted	—	—	—	1,739
Class B common stock—$0.01 par value; 21,000,000 shares authorized; 18,256,000 shares authorized, issued and outstanding	183	183	183	183
Class C common stock—$0.01 par value; 800,000,000 shares authorized; no shares issued and outstanding	—	—	—	—
Additional paid-in capital	1,990,485	2,972,142	3,460,604	5,886,674
Other comprehensive income	3,928	2,696	1,721	1,721
Accumulated deficit	(659,869)	(1,306,915)	(1,516,741)	(1,516,741)
Total stockholder's equity	1,334,727	$ 1,668,106	1,945,767	4,373,576
Total liabilities and stockholder's equity	$1,685,969	$ 2,343,132	$ 2,461,854	$4,843,663

The accompanying notes are an integral part of these combined financial statements.

GENUITY INC.

COMBINED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Predecessor	Genuity				
	Six Months Ended June 30,	Year Ended December 31,			Three Months Ended March 31,	
	1997	1997	1998	1999	1999	2000
					(unaudited)	
Cash flows from operating activities:						
Net loss	$(37,663)	$(174,928)	$ (468,559)	$ (647,046)	$ (138,580)	$ (209,826)
Adjustments to reconcile net loss to net cash provided by (used in) operations:						
Depreciation and amortization	10,536	49,444	104,444	187,628	41,094	53,786
Changes in current assets and current liabilities:						
Receivables—net	(15,602)	(19,934)	(75,883)	(68,008)	(24,903)	19,836
Other current assets	726	(9,341)	(6,730)	5,472	(6,142)	(17,834)
Other current liabilities	46,265	96,667	(92,914)	170,338	5,596	40,017
Other, net	(1,766)	(32,835)	26,714	(52,226)	(10,544)	(5,374)
Net cash provided by (used in) operating activities	2,496	(90,927)	(512,928)	(403,842)	(133,479)	(119,395)
Cash flows from investing activities:						
Capital expenditures	(2,830)	(255,903)	(505,303)	(666,398)	(132,733)	(210,895)
Purchase of businesses, net of cash acquired	—	(517,788)	—	—	—	—
Capitalized software	—	—	—	(34,580)	—	(1,408)
Net cash used in investing activities	(2,830)	(773,691)	(505,303)	(700,978)	(132,733)	(212,303)
Cash flows from financing activities:						
Repayment of long-term debt	(34,012)	(834)	(29,547)	(37,512)	(8,742)	(55,154)
Change in short-term obligations	10,249	346	9,904	5,422	3,068	48,299
Change in note payable/receivable—GTE	—	257,178	(264,860)	154,723	(20,480)	(138,320)
Issuance of Class B common stock	—	183	—	—	—	—
Contributions from GTE	—	610,505	1,313,554	974,348	279,024	487,947
Net cash provided by (used in) financing activities	(23,763)	867,378	1,029,051	1,096,981	252,870	342,772
Net increase (decrease) in cash and cash equivalents	(24,097)	2,760	10,820	(7,839)	(13,342)	11,074
Cash and cash equivalents, beginning of period	102,870	303	3,063	13,883	13,883	6,044
Cash and cash equivalents, end of period	$ 78,773	$ 3,063	$ 13,883	$ 6,044	$ 541	$ 17,118
Supplemental Cash Flows Disclosure						
Cash paid during the year for:						
Interest	$ 671	$ 2,142	$ 16,401	$ 4,403	$ 1,184	$ 802
State income taxes	$ —	$ 433	$ 1,463	$ 1,649	$ 333	$ 588
Noncash Investing and Financing Activities:						
Capital lease obligation incurred for equipment purchase	$ 20,425	$ 21,469	$ 54,958	$ 23,374	$ 14,206	$ —
Accounts payable—work in process	$ —	$ 22,119	$ 27,570	$ 54,584	$ (41,782)	$ (47,802)

The accompanying notes are an integral part of these combined financial statements.

GENUITY INC.

COMBINED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY (dollars and shares in thousands)

	Common Stock	Class A Common Shares	Class A Common Stock	Class B Common Shares	Class B Common Stock	Additional Paid-In Capital	Other Comprehensive Income (Loss)	Accumulated Deficit	Treasury Shares	Total
PREDECESSOR										
Balance, December 31, 1996	$25,041	—	$ —	—	$ —	$ 115,456	$ —	$ (5,967)	$(28,419)	$ 106,111
Stock option exercises	88	—	—	—	—	1,912	—	—	—	2,000
Conversion of debentures	249	—	—	—	—	7,562	—	—	—	7,811
Net loss	—	—	—	—	—	—	—	(37,663)	—	(37,663)
Other	—	—	—	—	—	—	(1,033)	—	—	(1,033)
Balance, June 30, 1997	$25,378	—	$ —	—	$ —	$ 124,930	$(1,033)	$ (43,630)	$(28,419)	$ 77,226
GENUITY										
Balance, December 31, 1996	$ —	—	$ —	—	$ —	$ 47,758	$ —	$ (16,382)	$ —	$ 31,376
Conversion of Predecessor equity instruments	—	—	—	—	—	16,186	—	—	—	16,186
Issuance of Class B common stock	—	—	—	18,256	183	—	—	—	—	183
Capital contributions—GTE	—	—	—	—	—	610,505	—	—	—	610,505
Net loss	—	—	—	—	—	—	—	(174,928)	—	(174,928)
Other	—	—	—	—	—	—	2,046	—	—	2,046
Balance, December 31, 1997	—	—	—	18,256	183	674,449	2,046	(191,310)	—	485,368
Tax benefit on exercise of stock options—GTE	—	—	—	—	—	2,482	—	—	—	2,482
Capital contributions—GTE	—	—	—	—	—	1,313,554	—	—	—	1,313,554
Net loss	—	—	—	—	—	—	—	(468,559)	—	(468,559)
Other	—	—	—	—	—	—	1,882	—	—	1,882
Balance, December 31, 1998	—	—	—	18,256	183	1,990,485	3,928	(659,869)	—	1,334,727
Tax benefit on exercise of stock options—GTE	—	—	—	—	—	7,309	—	—	—	7,309
Capital contributions—GTE	—	—	—	—	—	974,348	—	—	—	974,348
Net loss	—	—	—	—	—	—	—	(647,046)	—	(647,046)
Other	—	—	—	—	—	—	(1,232)	—	—	(1,232)
Balance, December 31, 1999	—	—	—	18,256	183	2,972,142	2,696	(1,306,915)	—	1,668,106
Tax benefit on exercise of stock options—GTE	—	—	—	—	—	515	—	—	—	515
Capital contributions—GTE	—	—	—	—	—	487,947	—	—	—	487,947
Net loss	—	—	—	—	—	—	—	(209,826)	—	(209,826)
Other	—	—	—	—	—	—	(975)	—	—	(975)
Balance, March 31, 2000 (unaudited)	—	—	—	18,256	183	3,460,604	1,721	(1,516,741)	—	1,945,767
Capital contribution—GTE	—	—	—	—	—	177,783	—	—	—	177,783
Issuance of Class A Common Stock	—	173,913	1,739	—	—	2,248,287	—	—	—	2,250,026
Pro Forma As Adjusted Balance, March 31, 2000 (Note 15)(unaudited)	$ —	173,913	$1,739	18,256	$183	$5,886,674	$ 1,721	$(1,516,741)	$ —	$4,373,576

The accompanying notes are an integral part of these combined financial statements.

GENUITY INC.

COMBINED STATEMENTS OF COMPREHENSIVE LOSS
(dollars in thousands)

	Predecessor	Genuity				
	Six Months Ended June 30,	Year Ended December 31,			Three Months Ended March 31,	
	1997	1997	1998	1999	1999	2000
					(unaudited)	
Net Loss	$(37,663)	$(174,928)	$(468,559)	$(647,046)	$(138,580)	$(209,826)
Other Comprehensive Income (Loss):						
Foreign currency translation adjustments	(113)	(37)	32	118	768	550
Unrealized gain (loss) on securities	(920)	2,083	1,850	(1,350)	(1,062)	(1,525)
	(1,033)	2,046	1,882	(1,232)	(294)	(975)
Comprehensive Loss	$(38,696)	$(172,882)	$(466,677)	$(648,278)	$(138,874)	$(210,801)

The accompanying notes are an integral part of these combined financial statements.

GENUITY INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

(Including Data Applicable to Unaudited Periods)

1. Description of Business and Summary of Significant Accounting Policies:

Description of Business and Organization

Genuity Inc. (Genuity or the Company), a Delaware corporation, is a wholly-owned subsidiary of GTE Corporation (GTE). Genuity is a leading facilities-based provider of managed Internet infrastructure services. By leveraging a technologically advanced, high-bandwidth global fiber-optic network, data center facilities, and a rapidly growing base of business and consumer users and content directly attached to its Internet backbone, Genuity engineers and delivers a comprehensive suite of managed Internet infrastructure services. These services include Internet access through dial-up, dedicated and digital subscriber lines; web hosting and content delivery; and value added e-business services, such as virtual private networks for secure data transmission, security services and voice-over-IP. Genuity's services are provided to both enterprises and service providers including Internet service providers, application service providers and carriers.

Genuity's predecessor incurred net losses of $37.7 million for the six months ended June 30, 1997. Genuity incurred net losses of $174.9 million, $468.6 million and $647.0 million for the years ended December 31, 1997, 1998 and 1999, respectively, and $138.6 million and $209.8 million for the three months ended March 31, 1999 and 2000 (unaudited), respectively. Through March 31, 2000, Genuity has incurred cumulative operating losses of $1,516.7 million (unaudited). Given the level of planned operating and capital expenditures, Genuity expects to continue to incur significant operating losses for the next several years.

The markets in which Genuity operates can be characterized as rapidly changing due to technological developments, evolving industry standards and customer demands and frequent new product and service introductions and enhancements. Genuity expects to continue to make significant investments to expand its capacity and facilities infrastructure, develop brand recognition, broaden the range of service offerings and expand its sales, marketing, technical and customer support personnel. These efforts will require significant expenditures, a substantial portion of which will be made before any significant corresponding revenue may be realized.

Genuity is also dependent on a limited source of suppliers for a number of components and parts necessary for its network buildout and operations. Genuity does not carry significant inventories of components and has no guaranteed supply arrangements with vendors. Shortages from these suppliers could cause significant delays in or abandonment of the expansion of the network and could have an adverse affect on Genuity's operating results.

Basis of Presentation

The accompanying combined financial statements of Genuity include the financial position and results of operations of those operations that will constitute Genuity as of the completion of the proposed initial public offering. Certain of the operations and assets included in these combined financial statements were transferred to Genuity on   , 2000. The accompanying financial statements have been restated to combine the assets, liabilities, equity and results of operations of these transferred operations as if the transfer had occurred as of January 1, 1997. GTE acquired BBN Corporation effective June 30, 1997. This acquisition was accounted for as a purchase business combination and, consequently, the results of operations of BBN Corporation, excluding the operations of BBN Technologies (BBNT), which are being retained by GTE, are included in the Genuity financial statements for the periods after June 30, 1997. The results of operations of our predecessor represent the results of BBN Corporation, excluding the operations of BBNT.

Genuity prepares its combined financial statements in accordance with generally accepted accounting principles, which require that management make estimates and assumptions that affect reported amounts. Actual results could differ from these estimates.

The combined financial statements of Genuity include the accounts of all majority-owned subsidiaries. All significant intercompany amounts have been eliminated.

Genuity purchases payroll, purchasing, electronic data processing services and other general and administrative services from GTE and affiliates whose business is the provision of these services. In management's view, the cost of services provided to Genuity by GTE and affiliates reasonably approximates the costs that Genuity would have incurred if it had performed the services. See Note 13 for further discussion.

Interim Financial Statements

The accompanying combined financial statements as of March 31, 2000, and for the three-month periods ended March 31, 1999 and 2000, are unaudited, but in the opinion of management, include all adjustments consisting of normal recurring adjustments necessary for a fair presentation of results for the interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted with respect to the quarters, although the Company believes that the disclosures included are adequate to make the information presented not misleading. Results for the three months ended March 31, 2000 are not necessarily indicative of the results that may be expected for the year ending December 31, 2000.

Revenue Recognition

Revenue is generally recognized when services are rendered or products are delivered to customers. The majority of Genuity's contracts consist of separate agreements to provide Internet access, web-hosting, value added e-business or transport services to customers.

Access

Internet access services include dial-up, dedicated and digital subscriber lines. Internet access customers typically sign one or two-year contracts providing for monthly recurring service fees that are earned and recognized based on either fixed fees or capacity utilization. Access also includes revenue associated with the development, operation and maintenance of a nationwide dial-up network for America Online, based on a fee per modem per month basis. The contract with America Online extends through 2006.

Web-Hosting

Web-hosting services include managed hosting, collocation, content delivery and high availability services. Web-hosting customers typically sign one or two-year contracts. Revenues are earned and recognized based on monthly fees for server management, physical facilities and bandwidth utilization.

Transport

Transport services include services such as asynchronous transfer mode, or ATM, and private line services. ATM transfer service, a form of high speed data transfer, is targeted primarily at carriers and Internet service providers with high bandwidth voice, video and data transmission requirements. Private line service provides dedicated point-to-point transport services through non-switched, non-usage sensitive dedicated facilities. Transport revenues are earned and recognized based on customer usage of circuit mileage and capacity. Transport customers typically sign one or two-year contracts.

Other

Other includes the results of the international business, which consists primarily of Internet access, and domestic value-added e-business services, such as managed security services, virtual private networks for secure data transmission and voice-over-IP. Revenues for international access and hosting are recognized on a basis consistent with domestic services. Revenues for security and virtual private network services are earned and recorded based on fixed, monthly recurring fees and revenues for voice-over-IP services are based on usage. Value-added e-business service contracts typically range from one to two years.

Billings made or payments received in advance of providing services are deferred until the period these services are provided.

Certain of Genuity's contracts, primarily related to web hosting and value added e-business services, include up-front charges for installation services. It has been the Company's practice to recognize installation revenue only to the extent of incurred costs. In the first quarter of 2000, the Company adopted Staff Accounting Bulletin (SAB) No. 101, ''Revenue Recognition in Financial Statements.'' In accordance with SAB No. 101, as amended, this revenue and the corresponding costs are deferred and recognized over the contract terms, which approximate 1 year.

Genuity has contracts with some customers that provide service level commitments. If Genuity does not meet the required service levels, it may be obligated to provide credits, usually in the form of free service for a short period of time. These amounts are accounted for in cost of sales. To date, credits issued under these arrangements for Genuity's failure to meet service level commitments have not been material. During 1999, one of Genuity's vendors experienced failures on its network, which resulted in a disruption to Genuity's customers. Genuity's vendor provided credits to Genuity for the service failure, which Genuity passed on to its customers.

Advertising Costs

Genuity expenses the cost of advertising as incurred. The Predecessor's advertising expense was $5.1 million for the six months ended June 30, 1997. Genuity's advertising expense was $4.6 million, $16.5 million and $21.5 million for the years ended December 31, 1997, 1998 and 1999, respectively, and $2.8 million and $6.6 million for the three-month periods ended March 31, 1999 and 2000 (unaudited), respectively. Advertising expense is included as a component of selling, general and administrative expenses in the accompanying combined statements of operations.

Income Taxes

Genuity has historically filed its federal income tax return on a consolidated basis with GTE. Upon completion of the proposed initial public offering, Genuity will be deconsolidated from GTE for income tax return purposes. Income tax payments and refunds will be determined based on the stand-alone filings of Genuity. The accompanying combined financial statements are presented as if Genuity was a stand-alone company for all periods presented. The Predecessor was part of a stand-alone entity, and its taxes were recorded on that basis.

Genuity and the Predecessor computed their current and deferred income tax expense on a stand-alone basis in accordance with Statement of Financial Accounting Standards (SFAS) No. 109 ''Accounting for Income Taxes,'' which requires recognition of deferred tax liabilities and assets based upon the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax basis of assets and liabilities using tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance has been established to reflect the likelihood of realization of deferred tax assets.

Genuity has approximately $39 million of net operating loss carryforwards and $10 million of research credit carryforwards, which are limited in use due to the fact that they were generated by the Predecessor.

Loss Per Common Share

Loss per common share is calculated based on the provisions of SFAS No. 128, ''Earnings per Share.'' The basic loss per share of Genuity was computed based on the number of common shares that were issued in connection with the recapitalization of Genuity, which occurred on , 2000. Genuity has no potentially dilutive common shares.

Cash and Cash Equivalents

Cash and cash equivalents include investments in short-term, highly liquid securities, which have maturities when purchased of three months or less.

Deferred Commissions

Genuity defers certain customer acquisition costs in order to recognize those direct costs in the same accounting period as the associated revenues, provided the revenues are contractual. These deferred costs were included in other current assets in the accompanying combined balance sheets.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed over the assets' estimated useful lives using the straight-line method. Useful lives used in computing depreciation are as follows: buildings and fixtures—10 to 30 years, communications network—fiber-optic cable—20 to 25 years, communications network—data processing equipment and machinery which include labor and other direct costs—3 to 10 years and furniture—5 to 7 years. Leasehold improvements are amortized over the shorter of the lease period or their estimated useful lives using the straight-line method. Maintenance and repairs are charged to expense as incurred; improvements are capitalized.

When property is sold or retired, the cost of the property and the related accumulated depreciation are removed from the combined balance sheet and any gain or loss on the transaction is included in the accompanying combined statement of operations.

Work in progress represents costs incurred for the build-out and expansion of the network infrastructure and includes engineering costs and capitalized interest. When these assets are placed in service, the costs are recorded in the appropriate property, plant and equipment accounts and depreciation begins.

Genuity leases data communications equipment under a capital lease agreement. The assets and liabilities under the capital lease are recorded at the present value of minimum lease payments. Assets under the capital lease are depreciated over the term of the lease, which is generally 5 years.

Communications network—fiber optic cable primarily includes an indefeasible right of use agreement with Qwest Communications International Inc. at December 31, 1999 and March 31, 2000 (unaudited).

Goodwill and Other Intangibles

Goodwill and other intangible assets pertain to the acquisitions of the Predecessor and the assets of a web hosting business acquired in 1997, and internal use software. Goodwill is being amortized on a straight-line basis over the lesser of 20 years or the period benefited. Other intangible assets include customer bases, trademarks, developed technology and in-place work forces in connection with the acquisitions, and internal use software. Customer bases and in-place work forces are amortized in a manner consistent with historical attrition patterns over 3 to 10 years. Trademarks, developed technology and internal use software are amortized on a straight-line basis over 3 to 10 years.

Software

In March 1998, the American Institute of Certified Public Accountants issued Statement of Position (SOP) 98-1, ''Accounting for the Costs of Computer Software Developed or Obtained for Internal Use.'' Under the provisions of this SOP, effective January 1, 1999, Genuity was required to capitalize and amortize the cost of all internal-use software. Prior to the adoption of SOP 98-1, primarily all software was expensed as incurred. Software expensed in 1997 and 1998 was approximately $17.3 million and $1.4 million, respectively. Capitalized software is amortized over a useful life ranging from 3 to 5 years. Software maintenance costs are expensed as incurred.

Employee Benefit Plans

For periods prior to the initial public offering, Genuity participated in GTE's pension and postretirement health care and life insurance benefit plans. The plans' cost and liability recorded by Genuity are based on Genuity's participation in GTE's plans.

Valuation of Assets

The impairment of tangible and intangible assets is assessed when changes in circumstances indicate that their carrying value may not be recoverable. Under SFAS No. 121, ''Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of,'' a determination of impairment, if any, is made based on estimated future cash flows, salvage value or expected net sales proceeds depending on the circumstances. In instances where goodwill has been recorded in connection with impaired assets, the carrying amount of the goodwill is first eliminated before any reduction to the carrying value of tangible or identifiable intangible assets. Genuity's policy is to record asset impairment losses as well as net gains or losses on sales of assets as a component of other income. Under Accounting Principles Board Opinion No. 17, ''Intangible Assets,'' the Company also annually evaluates the future period over which the benefit of goodwill will be received, based on future cash flows, and changes the amortization life accordingly.

Concentrations of Credit Risk and Significant Customers

Genuity's accounts receivable are subject to credit risk. Genuity performs regular credit evaluations of its customers' financial condition and maintains allowances for potential credit losses. Genuity's risk of loss is limited due to advance billings to some of its customers for services and the ability to terminate service on delinquent accounts. The credit risk is also mitigated by the large number of customers comprising the customer base, with the exception of one large customer, America Online. Revenues from America Online in relation to Genuity's and Predecessor's total revenues were significant. However, the credit risk associated with America Online is mitigated by utilization of advance billings and a history of timely collections. The average accounts receivable balance of America Online represented 34%, 44% and 37% of Genuity's receivable balance during the years ended 1998 and 1999, and the three-months ended March 31, 2000 (unaudited), respectively, while revenues from America Online represented 53% and 52% of Genuity's total revenues for the years ended December 31, 1998 and 1999, respectively, and 53% and 46% for the three-month periods ended March 31, 1999 and 2000 (unaudited), respectively.

Genuity has been a supplier of network access services in the United States to America Online since 1995. Genuity entered into a new agreement with America Online effective as of December 31, 1999, pursuant to which America Online has agreed to purchase additional dial-up access services from Genuity for a seven-year term through December 31, 2006. Under the new agreement, America Online has also agreed to purchase managed digital subscriber line and other broadband network access services from Genuity for a five-year term through December 31, 2004. This agreement includes provisions for minimum purchase requirements at fixed monthly fees, subject to market pricing adjustments, service level requirements and termination provisions.

In providing America Online services under the agreement, Genuity is obligated to comply with specified minimum service levels. Either party may terminate the agreement in the event the other party commits a material breach which is not cured within the specified period. In addition, America Online has the right to terminate the agreement in the event of: (1) repeated material breaches by Genuity; (2) a violation of the most favored customer pricing provisions; (3) a total or near total outage of any of the services provided by Genuity that, while lasting fewer than thirty days, is widespread and prolonged; (4) Genuity's inability to meet the service level commitments or to expand service availability as required under the agreement; and (5) a change in control other than through an initial public offering. Genuity is also obligated to provide America Online assistance in the twelve months following any termination of the agreement to ensure a smooth transition of services. The agreement provides America Online with a right of first refusal with respect to the sale of the dial-up network access business.

Under a separate agreement with America Online Japan and Genuity's Japanese branch, Genuity has agreed to provide dial-up network access services to America Online in Japan. This agreement also includes minimum purchase requirements on the part of America Online Japan, market pricing adjustments, service level requirements, and termination provisions.

Financial Instruments

Financial instruments include cash and cash equivalents, accounts receivable, equity securities, accounts payable, notes payable and debt. The fair values of financial instruments included in the combined balance sheets, other than long-term debt, closely approximate their recorded values. The recorded values of equity securities equal their fair values based on quoted market prices, and are classified as available-for-sale securities. The securities are included in other current assets in the accompanying combined balance sheets and have a cost of $11.8 million and $3.5 million at December 31, 1998 and 1999, respectively, and $3.5 million at March 31, 2000 (unaudited). The estimated fair value of long-term debt based on a debt pricing model was lower than its recorded value as of December 31, 1998 and 1999 by approximately $1.2 million and $6.6 million, respectively, and as of March 31, 2000, by approximately $6.8 million (unaudited).

Comprehensive Loss

Comprehensive loss is the change in equity from transactions and other events and circumstances that are not from owners. Included in other comprehensive income (loss) are foreign currency translation gains and losses and unrealized gains and losses on available-for-sale securities.

Foreign Currency Translation

Assets and liabilities of units operating in foreign countries are translated into U.S. dollars using the exchange rates in effect on the balance sheet date. Results of operations are translated using the average exchange rates prevailing throughout the period. Foreign assets, liabilities and results of operations are not material in all periods presented.

Recent Accounting Pronouncements

On December 3, 1999, the Securities and Exchange Commission issued SAB No. 101. Genuity is required to adopt this accounting guidance, as amended by SAB No. 101A, no later than the second quarter of 2000. Genuity adopted this accounting in the first quarter of 2000. There was no impact to the Company's combined statement of operations for the adoption of SAB No. 101, as it had been the Company's practice to recognize installation revenue on its web hosting contracts only to the extent of incurred costs. The Company, at March 31, 2000, has recorded deferred revenue of approximately $1.9 million and deferred costs of approximately $1.9 million associated with the adoption of SAB No. 101.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, ''Accounting for Derivative Instruments and Hedging Activities.'' SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. SFAS No. 133, as amended by SFAS No. 137, is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. This new standard is not anticipated to have an impact on the Company's combined financial statements based on the current structure and operations.

2. GTE's Proposed Merger with Bell Atlantic Corporation

Genuity is currently a wholly owned subsidiary of GTE. In July 1998, GTE and Bell Atlantic agreed to enter into a merger of equals transaction. The new combined company is Verizon Communications (Verizon). Under the terms of the agreement, which was unanimously approved by the boards of directors of both companies and a majority of the shareholders, GTE's shareholders will receive 1.22 shares of Verizon stock for each share of GTE's stock that they own. The merger is subject to regulatory approvals.

Under the Telecommunications Act of 1996 (Telecommunications Act), the Regional Bell Operating Companies, including the Bell Atlantic local telephone operating companies, and their respective affiliates, are generally prohibited from providing long distance services that originate in any state in which the Regional Bell Operating Companies operate an incumbent local telephone company. These restrictions, which are referred to as Section 271 restrictions, prohibit these companies from offering long distance services originating in a particular state until the relevant local telephone operating company operating in that state has satisfied a 14-point competitive checklist under Section 271 of the Telecommunications Act and obtained authority from the Federal Communications Commission (FCC) to provide long distance services in those states.

Bell Atlantic operates an incumbent local telephone companies in 13 states, from Maine to Virginia, and the District of Columbia. The total billable access telephone lines owned by Bell Atlantic in these states in 1999 are referred to as ''Bell Atlantic in-region lines.'' Bell Atlantic has obtained the necessary authorization to provide long distance service originating in New York. Because Genuity provides services in Bell Atlantic's region that could be characterized as long distance services, Bell Atlantic and GTE cannot complete their merger until they either (1) receive relief from the Section 271 restrictions for the remaining states in which Bell Atlantic provides local telephone services or (2) implement a structure that complies with the requirements of the Telecommunications Act.

To ensure compliance with the requirements of the Telecommunications Act and to receive FCC approval of their merger, Bell Atlantic and GTE made a proposal to the FCC under which (1) GTE would exchange all of the outstanding shares of Genuity common stock for shares of Genuity Class B common stock and (2) Genuity would complete an initial public offering of Class A common stock. As a result, immediately after completion of Genuity's proposed initial public offering, the investors purchasing shares in the initial public offering will own shares of Genuity's Class A common stock possessing 90.5% of the total voting power of Genuity's common stock and Verizon will own shares of Genuity's Class B common stock possessing 9.5% of the total voting power of Genuity's common stock.

Genuity's Class B common stock is convertible into Class A common stock or, if held by Verizon and at Verizon's election, Class C common stock. Genuity's Class A common stock and Class B common stock have one vote per share and Genuity's Class C common stock has five votes per share. Under the proposal to the FCC, Genuity's Class B common stock cannot be converted into more than 10% of the outstanding common stock until Verizon has eliminated, as to at least 50% of the Bell Atlantic in-region lines, Section 271 restrictions applicable to its operation of Genuity's business. At such time as Verizon has eliminated the applicable Section 271 restrictions as to at least 50% of Bell Atlantic in-region lines, Genuity's outstanding shares of Class B common stock can be converted by a holder other than Verizon into 800 million shares of Genuity's Class A common stock. This amount represents approximately 82% of Genuity's common stock outstanding after the proposed initial public offering or 80% if the underwriters fully exercise their over-allotment option. At such time as Verizon has eliminated the applicable Section 271 restrictions as to 100% of the Bell Atlantic in-region lines, it could convert its Class B common stock into 800 million shares of Class C common stock, which, in addition to representing approximately 82% of Genuity's common stock outstanding after the proposed initial public offering, would also possess approximately 96% of the total voting power of the common stock.

3. Property, Plant and Equipment, Net

Property, plant and equipment, net was comprised of the following (in thousands):

	December 31,		March 31,
	1998	1999	2000
			(unaudited)
Land	$ 4,644	$ 4,705	$ 4,705
Buildings and fixtures	5,210	13,327	7,194
Communications network—fiber-optic cable	300,035	481,573	537,113
Communications network—data processing equipment and machinery	484,502	727,046	773,416
Furniture	11,083	18,653	20,338
Leasehold improvements	95,418	164,542	151,157
Work in progress	177,607	402,740	465,621
Subtotal	1,078,499	1,812,586	1,959,544
Accumulated depreciation	(169,519)	(291,652)	(330,153)
Total	$ 908,980	$1,520,934	$1,629,391

During 1999, Genuity completed its initial buildout of its communications network in the United States. Costs directly related to the network have been capitalized, including amounts associated with the indefeasible rights of use. Genuity commenced depreciation as individual segments were placed in service.

The Predecessor's depreciation expense was $10.5 million for the six months ended June 30, 1997. Genuity's depreciation expense was $18.7 million, $56.2 million and $135.4 million for the years ended December 31, 1997, 1998 and 1999, respectively, and $28.6 million and $38.9 million for the three-month periods ended March 31, 1999 and 2000 (unaudited), respectively.

Interest and network engineering costs capitalized as part of property, plant and equipment were as follows (in thousands):

	Predecessor	Genuity				
	Six Months Ended June 30,	Year Ended December 31,			Three Months Ended March 31,	
	1997	1997	1998	1999	1999	2000
					(unaudited)	
Network engineering costs	$422	$1,422	$10,263	$23,148	$ 9,461	$9,511
Capitalized interest	—	—	17,700	6,408	1,818	298
Total	$422	$1,422	$27,963	$29,556	$11,279	$9,809

4. Goodwill and Other Intangibles, Net

Goodwill and other intangibles, net was comprised of the following (in thousands):

	December 31,		March 31,
	1998	1999	2000
			(unaudited)
Goodwill	$495,348	$495,348	$495,348
Customer bases	77,000	77,000	77,000
Trademarks	34,000	34,000	34,000
Developed technology	19,000	19,000	19,000
In-place work forces	9,190	9,190	9,190
Internal use software	—	34,580	35,988
Subtotal	634,538	669,118	670,526
Accumulated amortization	(78,926)	(131,129)	(145,990)
Total	$555,612	$537,989	$524,536

Genuity's amortization expense was $30.7 million, $48.2 million and $52.2 million for the years ended December 31, 1997, 1998 and 1999, respectively, and $12.5 million and $14.9 million for the three month periods ended March 31, 1999 and 2000 (unaudited), respectively.

5. Debt

Long-term obligations and short-term obligations were as follows (in thousands):

	December 31, 1998	December 31, 1999	March 31, 2000 (unaudited)
6% convertible subordinated debentures	$ 55,903	$ 48,948	$ —
Capital leases	70,952	63,769	57,563
Total long-term obligations	$126,855	$112,717	$57,563
Note payable—GTE	$ —	$136,484	$ —
6% convertible subordinated debentures	—	—	48,812
Current portion of capital leases	20,499	25,921	25,408
Total short-term obligations	$ 20,499	$162,405	$74,220

On April 1, 1987, Predecessor issued $84.7 million of 6% convertible subordinated debentures. The 6% convertible subordinated debentures due 2012 may be converted by the bondholders into cash at an exchange ratio of $966.67 for each $1,000 in principal amount of debentures. The debentures are unsecured obligations of Genuity and are subordinated in right of payment to Genuity's senior indebtedness, if any. Debt issuance costs are being amortized over the term of the debentures. The unamortized balance at December 31, 1999, and March 31, 2000 of $0.6 million and $0.5 million (unaudited), respectively, is included in other assets in the accompanying combined balance sheets.

Genuity is required to contribute to a sinking fund annual payments equal to 5% of the aggregate principal amount issued. The sinking fund was calculated to retire 70% of the original debentures prior to maturity. As of December 31, 1999 Genuity had purchased and retired debentures with a face value of $37.3 million which has been used to satisfy the annual sinking fund requirements through 2006.

The interest rate on the note payable to/receivable from GTE is based on an intercompany borrowing interest rate established by GTE, which fluctuated between 4.85% and 6.58% in 1997, 5.41% and 6.24% in 1998, 6.04% and 6.75% in 1999, 5.00% and 5.68% in the first quarter of 1999 (unaudited) and 6.00% and 6.24% in the first quarter of 2000 (unaudited).

Genuity has entered into leasing agreements to finance some equipment acquisitions. The underlying assets serve to collateralize the debt. The borrowings bear interest at effective rates of 5.07% to 9.50% and have terms of 5 years from the date of purchase, with principal and interest payable quarterly in advance. The leases include purchase and renewal options at fair market values. The leases are classified as capital leases in accordance with the provisions of SFAS No. 13, "Accounting for Leases."

Assets under capital leases were as follows (in thousands):

	December 31, 1998	December 31, 1999	March 31, 2000 (unaudited)
Data processing equipment	$91,682	$115,056	$115,407
Accumulated depreciation	(25,936)	(51,792)	(57,409)
Total	$65,746	$ 63,264	$ 57,998

6. Stockholder's Equity

Common Stock

The authorized and issued common stock of Genuity is based on the number of common shares that will be issued in connection with the recapitalization of Genuity, which occurred on , 2000. In connection with the recapitalization, the 1,000 shares of common stock issued and outstanding were converted to 18,256,000 shares of Class B common stock.

Additional Paid-In Capital

Genuity received contributions from GTE of $610.5 million, $1,313.6 million and $974.3 million, for the years ended December 31, 1997, 1998 and 1999, respectively, and $487.9 million for the three-month period ended March 31, 2000 (unaudited).

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) includes cumulative foreign currency translation adjustments and the cumulative unrealized loss on investments in securities. The Predecessor's cumulative foreign currency translation adjustment was a loss of $0.1 million as of June 30, 1997. Genuity's cumulative foreign currency translation adjustment was a gain of $0.1 million as of December 31, 1999, and $0.8 million and $0.7 million as of March 31, 1999 and 2000 (unaudited), respectively. The Predecessor's cumulative unrealized loss on investments in securities was $0.9 million as of June 30, 1997 and Genuity's cumulative unrealized gain on investments in securities was $2.1 million, $3.9 million and $2.6 million as of December 31, 1997, 1998 and 1999, respectively, and $2.9 million and $1.1 million as of March 31, 1999 and 2000 (unaudited), respectively.

7. Stock-Based Compensation

GTE maintains broad-based stock option plans that have historically covered substantially all Genuity employees. Genuity employees will not participate in these plans after the initial public offering. Prior to 1997, options were granted separately or in conjunction with stock appreciation rights (SARs). Beginning in 1997, the granting of SARs was discontinued. In 1997, GTE's shareholders approved the GTE Corporation 1997 Long-Term Incentive Plan (the LTIP). Each option granted under the LTIP conveys the right to purchase, at fair market value on the date of the grant, shares of GTE common stock. Generally, options have a term of 10 years and become vested over a period not to exceed three years. At December 31, 1999 and March 31, 2000, 1,595,984 and 1,961,045 (unaudited) options granted to Genuity employees, respectively, were exercisable in shares of GTE common stock. Options granted under the Predecessor's stock incentive plan were converted into GTE options or plan participants received cash.

In 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation." As permitted by SFAS No. 123, GTE continues to apply the recognition and measurement provisions of Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees." In accordance with APB No. 25, compensation expense is not recognized for stock options on the date of grant since it is GTE's practice to grant options with an exercise price equal to the fair market value of its common stock on the date of grant. Under SFAS No. 123, compensation cost is measured at the grant date based on the value of the award and is recognized over the service or vesting period. Had compensation cost for GTE's stock options been determined under SFAS No. 123, based on the fair market value at the grant dates, pro forma net loss and basic loss per share of Genuity would have been as follows (in thousands except per share amounts):

	Genuity Year Ended December 31, 1997	1998	1999
Net loss			
As reported	$(174,928)	$(468,559)	$(647,046)
Pro forma	(175,943)	(474,364)	(668,558)
Basic and diluted loss per share			
As reported	$ (9.58)	$ (25.67)	$ (35.44)
Pro forma	(9.64)	(25.98)	(36.62)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions for GTE options granted during the years ended December 31, 1997, 1998 and 1999: expected volatility of 18%-19.5%, expected maturities of seven years, risk-free interest rates equal to the yield on seven-year U.S. Treasury notes on the grant date and expected dividend yield of approximately 3%.

8. Employee Benefit Plans

Genuity does not intend to offer a pension or other postretirement plan to employees once its employees are no longer employees of GTE. Genuity does intend to offer a defined contribution (401(k)) plan.

GTE sponsors several qualified and nonqualified pension plans and other postretirement benefit plans for its employees, which prior to the initial public offering, include Genuity's employees. The Predecessor did not sponsor either a pension plan or an other postretirement benefit plan. Approximately 600 of Genuity's employees are covered under defined benefit pension plans and postretirement health care and life insurance plans. Pension plans are generally noncontributory by plan participants. Postretirement health care plans are generally contributory and include a limit on the portion of the cost of benefits for recent and future retirees paid by Genuity.

The cost and liability for the pension and other postretirement benefit plans recorded by Genuity are based on Genuity's participation in GTE's plans, representing an allocation of GTE's plans' assets and liabilities. Genuity's pension expense was $0.5 million, $0.9 million and $2.6 million for the years ended December 31, 1997, 1998 and 1999, respectively, and $0.2 million and $0.1 million for the three-month periods ended March 31, 1999 and 2000 (unaudited), respectively. Genuity's other postretirement benefit expense was $0.2 million, $0.4 million and $0.3 million for the years ended December 31, 1997, 1998 and 1999, respectively, and $0.1 million for the three-month period ended March 31, 1999 (unaudited). Genuity's pension liability was $2.5 million and $5.1 million as of December 31, 1998 and 1999, respectively, and $2.0 million as of March 31, 2000 (unaudited). Genuity's other postretirement benefit liability was $2.0 million and $2.2 million as of December 31, 1998 and 1999, respectively, and $1.9 million as of March 31, 2000 (unaudited).

BBN Corporation maintained the BBN Corporation Retirement Trust Agreement (the BBN 401(k) plan), which is a 401(k) plan that includes matching and profit sharing features. The plan covers most employees of Genuity who are not covered by the GTE Savings Plan. It is anticipated that the plan will be sponsored and maintained by Genuity or one of its affiliates after the proposed initial public offering. GTE sponsors employee savings and stock ownership plans (the GTE 401(k) plans) under section 401(k) of the Internal Revenue Code. Through the date of the proposed initial public offering the plans cover substantially all full-time employees of Genuity. Under the plans, Genuity provides matching contributions in either cash or GTE common stock based on qualified employee contributions. The Predecessor's matching contribution charged to income related to the BBN 401(k) plan was $0.6 million for the six months ended June 30, 1997. Genuity's matching contributions charged to income related to the GTE 401(k) plans and the BBN 401(k) plan were $1.0 million, $3.1 million, and $4.8 million for the years ended December 31, 1997, 1998 and 1999, respectively, and $0.9 million and $2.2 million for the three-month periods ended March 31, 1999 and 2000 (unaudited), respectively.

9. Interest Expense, Net

The combined statements of operations reflect total interest expense, less interest capitalized during construction and interest income as follows (in thousands):

	Predecessor	Genuity				
	Six Months Ended June 30,	Year Ended December 31,			Three Months Ended March 31,	
	1997	1997	1998	1999	1999	2000
					(unaudited)	
Interest expense	$(2,951)	$(1,346)	$(17,720)	$(9,952)	$(2,439)	$(3,271)
Interest capitalized	—	—	17,700	6,408	1,818	298
Interest income	2,473	—	—	3,361	187	—
Interest Expense, Net	$ (478)	$(1,346)	$ (20)	$ (183)	$ (434)	$(2,973)

10. Income Taxes

The income tax accounts included in the accompanying combined balance sheets and statements of operations are presented as if Genuity were a stand-alone company for all periods presented. The Predecessor was part of a stand-alone entity, and its income taxes were recorded on that basis. Taxable losses of Genuity aggregating $114.8 million, $526.7 million and $638.2 million for the years ended December 31, 1997, 1998 and 1999, respectively, and $179.1 million for the three-month period ended March 31, 2000 (unaudited), have benefited GTE in its consolidated tax return. Genuity received reimbursements aggregating $40.4 million, $185.7 million and $223.5 million for the years ended December 31, 1997, 1998 and 1999, respectively, and $62.5 million for the three-month period ended March 31, 2000 (unaudited). To present Genuity's tax provisions on a basis consistent with future periods these reimbursements have been accounted for as capital contributions. The tax provision included in the accompanying combined statements of operations represents the amounts owed for state taxes.

The significant components of Genuity's deferred tax assets and liabilities are as follows (in thousands):

	December 31, 1998	December 31, 1999	March 31, 2000
Deferred tax assets:			
Employee benefit obligations	$ 21,183	$ 22,200	$ 23,039
NOL carryforward	24,480	24,014	24,014
Predecessor goodwill	10,241	11,830	12,228
Capitalized software	3,548	5,256	5,256
Other	14,238	13,233	15,044
Total deferred tax assets	73,690	76,533	79,581
Deferred tax liabilities:			
Depreciation and amortization	(7,100)	(32,688)	(37,428)
Other intangibles	(35,775)	(29,247)	(27,615)
Operating leases	(4,201)	(4,201)	(4,201)
Other	(5,308)	(2,090)	(2,090)
Net deferred tax asset	21,306	8,307	8,247
Deferred tax asset—current	7,604	7,785	7,443
Deferred tax asset—noncurrent	13,702	522	804
Valuation allowance	(21,306)	(8,307)	(8,247)
	$ —	$ —	$ —

The net operating losses included above relate to Predecessor and are limited in their utilization under Internal Revenue Code Section 382. A full valuation allowance has been recorded in the accompanying combined financial statements to offset the net deferred tax asset because its future realizability is uncertain.

The difference between the income tax rate computed by applying the statutory federal income tax rate of 35% to income before income taxes and the actual effective income tax rate is summarized as follows:

	Year Ended December 31, 1997	Year Ended December 31, 1998	Year Ended December 31, 1999	Three-Months Ended March 31, 2000
Statutory rate	(35.0%)	(35.0%)	(35.0%)	(35.0%)
Increase (decrease) resulting from—				
State taxes, net of federal benefit	0.2	0.2	0.2	0.2
Goodwill	4.1	2.7	2.0	1.5
Meals and entertainment	0.1	0.1	0.1	0.1
Change in valuation allowance	6.3	(3.1)	(2.1)	—
Tax losses benefited to GTE	25.2	35.3	35.0	33.4
Other	(0.6)	0.1	0.1	0.1
	0.3%	0.3%	0.3%	0.3%

11. Segment Reporting

Effective December 31, 1998, Genuity adopted SFAS No. 131, ''Disclosure about Segments of an Enterprise and Related Information.'' SFAS No. 131 establishes standards for reporting financial information about operating segments in annual and interim financial statements and requires restatement of prior year information. Operating segments are defined as units of a business for which financial information is available that is evaluated by the primary decision-makers in determining the manner in which resources are allocated and in assessing performance of the business.

Genuity's operations are reported in three segments, Access, Hosting and Transport.

Access—Internet access pertains to a variety of global Internet access services, including dial-up, dedicated, DSL and other broadband, by providing and managing the underlying scaleable infrastructure. Genuity also provides a range of customer premise equipment necessary to connect to the Internet, including routers, channel service units/data services units, modems, software and other products. Customers receive 24 hours per day, 7 days per week network monitoring and technical support from Genuity's Network Operations Centers (NOC).

Hosting—Hosting pertains to services that allow customers to successfully implement their e-business strategies through scaleable, reliable and secure Web sites, which serve as their e-business storefronts. The e-business model enables companies to decrease sales costs; accelerate time to market; access new sales channels; increase revenues, productivity and customer satisfaction; and gain competitive advantage. Genuity currently operates ten global data centers, eight in the US, one in Leeds, England and one in Tokyo, Japan. Through the web hosting operation center, Genuity monitors these systems 24 hours a day and 7 days a week.

Transport—Genuity provides a broad range of transport services to customers through a single point of contact for planning, ordering, installing, billing, maintaining and managing our customers transport services. Genuity provides seamless operation of local loops, central office connections and interexchange carrier transport. Through Genuity's NOC, network faults, intrusion or environmental alarms are observed, diagnostics are performed, and referrals or dispatches are initiated as needed.

Other—Includes revenue from international operations, sale of international services and revenue generated from value-added Internet services of security, virtual private networks and voice-over IP.

Network costs within GNI which are incurred to support the Access, Hosting and Transport segments are not allocated to these segments for management reporting or segment reporting purposes. Similarly, selling, general and administrative expenses are not allocated to the segments for management or segment reporting purposes.

Revenues for America Online in relation to the Predecessor's total revenues represented 54% for the six months ended June 30, 1997. Revenues for America Online in relation to Genuity's total revenues were 42%, 53% and 52% for the years ended December 31, 1997, 1998 and 1999, respectively, and 53% and 46% for the three-month periods ended March 31, 1999 and 2000 (unaudited), respectively.

Management utilizes several measurements to evaluate its operations and allocate resources. However, the principal measurements are consistent with Genuity's financial statements. The accounting policies of the segments are the same as those described in Note 1.

Financial information for Genuity's segments is as follows (in thousands):

	Predecessor	Genuity				
	Six Months Ended June 30,	Year Ended December 31,			Three Months Ended March 31,	
	1997	1997	1998	1999	1999	2000
					(unaudited)	
Revenues						
Access	$ 94,126	$ 128,838	$ 350,777	$ 555,603	$ 128,038	$ 183,285
Hosting	9,601	9,690	33,469	48,811	10,028	21,692
Transport	—	41,920	46,876	64,483	13,535	23,625
Other	2,591	3,035	14,880	37,569	5,682	19,250
Total revenues	106,318	183,483	446,002	706,466	157,283	247,852
Operating Expenses						
Cost of goods sold	92,670	166,040	492,794	767,498	160,540	283,928
Selling, general and administrative	38,801	142,962	312,916	396,522	93,123	108,336
Depreciation and amortization	10,536	49,444	104,444	187,628	41,092	53,786
Total operating expenses	142,007	358,446	910,154	1,351,648	294,755	446,050
Operating Loss	(35,689)	(174,963)	(464,152)	(645,182)	(137,472)	(198,198)
Other Income (Expense)						
Interest expense, net	(478)	(1,346)	(20)	(183)	(434)	(2,973)
Other, net	(1,496)	1,814	(2,924)	(32)	(341)	(8,067)
Loss Before Income Taxes	$(37,663)	$(174,495)	$(467,096)	$ (645,397)	$(138,247)	$ (209,238)
Property, Plant and Equipment, Net						
Access	$ 44,212	$ 50,849	$ 100,884	$ 180,777	$ 109,663	$ 190,494
Hosting	7,957	23,023	29,310	52,998	30,421	66,686
Transport	—	27,313	26,752	26,974	26,263	26,342
GNI	—	263,467	705,892	1,162,287	764,194	1,243,404
Other	20,010	3,036	46,142	97,898	61,264	102,465
Total	$ 72,179	$ 367,688	$ 908,980	$ 1,520,934	$ 991,805	$1,629,391
Capital Expenditures[1]						
Access	$ 21,741	$ 21,002	$ 57,344	$ 112,872	$ 15,376	$ 22,894
Hosting	402	6,422	14,801	34,258	4,111	17,352
Transport	—	215	7,485	5,377	1,454	547
GNI	—	263,610	458,038	531,719	74,214	103,238
Other	1,112	8,242	50,163	60,130	10,002	19,062
Total	$ 23,255	$ 299,491	$ 587,831	$ 744,356	$ 105,157	$ 163,093
Depreciation and Amortization						
Access	$ 6,375	$ 6,341	$ 12,649	$ 32,543	$ 6,597	$ 10,138
Hosting	138	2,534	8,514	12,585	3,000	3,664
Transport	—	6,852	8,012	7,180	1,943	1,782
GNI	—	143	19,119	72,475	14,971	20,654
Other	4,023	33,574	56,150	62,845	14,581	17,548
Total	$ 10,536	$ 49,444	$ 104,444	$ 187,628	$ 41,092	$ 53,786
International						
Revenues	$ 279	$ 710	$ 5,622	$ 22,816	$ 3,812	$ 8,682
Long-lived assets	—	—	—	1,855	427	4,654

[1] Includes accruals and capital leases.

12. Commitments and Contingencies

Leases

Genuity leases office space and network equipment under long-term capital and operating leases. These leases have options for renewal with provisions for increased rent upon renewal. The Predecessor's rent expense was $2.1 million for the six months ended June 30, 1997, and Genuity's rent expense was $5.1 million, $12.9 million and $19.9 million for the years ended December 31, 1997, 1998 and 1999, respectively, and $3.7 million and $6.6 million for the three-month periods ended March 31, 1999 and 2000 (unaudited), respectively. Rent expense is included in cost of goods sold and selling, general and administrative expenses in the accompanying combined statements of operations.

As of December 31, 1999, future minimum lease payments under noncancelable capital and operating leases with initial or remaining periods in excess of one year were as follows (in thousands):

	Capital Leases	Operating Leases
2000	$ 33,475	$ 66,419
2001	28,701	60,143
2002	25,176	32,293
2003	11,643	26,142
2004	823	20,230
Subsequent years	—	56,502
Total minimum lease payments	99,818	$261,729
Amount representing interest	(10,128)	
Present value of minimum lease payments	$ 89,690	

GTE guarantees Genuity's existing real estate leases.

Contract Commitments

Genuity has entered into several agreements for indefeasible rights of use (IRU) for its network infrastructure in the United States. The initial terms of the IRUs are for 20-25 years, with options to extend the term. As of December 31, 1999 and March 31, 2000, the outstanding commitments under the agreements is approximately $17.4 million and $16.6 million, respectively. Genuity is also obligated to pay operating and maintenance costs under the contract terms.

Genuity has entered into a number of agreements for IRU to trans-oceanic cable systems that are either deployed or in the process of being deployed. The initial terms of the IRU is for 25 years. As of December 31, 1999 and March 31, 2000, outstanding commitments under these agreements total approximately $54.4 million and $52.5 million (unaudited), respectively.

Genuity has a noncancelable long-term purchase commitment with a circuit provider. The purchase agreement contains provisions that require Genuity to purchase a minimum amount of services annually through 2003. If Genuity does not purchase the minimum services, it is required to pay the amount of the shortfall between the minimum commitments and actual purchases. As of December 31, 1999, future minimum circuit payments under this noncancelable purchase commitment were as follows (in thousands):

2000	$ 38,000
2001	28,000
2002	24,000
2003	24,000
Total minimum circuit purchases	$114,000

Contingencies

Some claims arising in the ordinary course of business are pending against the Company. In the opinion of management, these claims are without merit and are not expected to have a material effect on operations.

13. Related Party Transactions

Genuity recorded revenues for transport services that it provided to affiliates in the amount of $13.6 million, $17.5 million and $24.1 million for the years ended December 31, 1997, 1998 and 1999, respectively, and $5.5 million and $11.7 million for the three-month periods ended March 31, 1999 and 2000 (unaudited), respectively. The transport services provided are similar to services provided to unaffiliated customers and are priced at comparable rates.

Genuity purchases payroll, purchasing, electronic data processing services and other general and administrative services from GTE and affiliates whose business is the provision of these services. The cost of these services to Genuity was $39.6 million, $92.3 million and $84.1 million for the years ended December 31, 1997, 1998 and 1999, respectively, and $25.2 million and $21.2 million for the three-month periods ended March 31, 1999 and 2000 (unaudited), respectively, and were based on the cost of providing these services as determined by cost and time studies performed periodically.

In management's view, the cost of services provided to Genuity by GTE and affiliates reasonably approximates the costs that Genuity would have incurred if it had performed the services.

Note payable to, and receivable from GTE include GTE funding of net cash flows to and from Genuity. Accounts receivable from, and accounts payable to affiliates represent balances from transactions in the ordinary course of business between Genuity and affiliates.

Transition Services Agreements

GTE and its affiliates currently provide a range of administrative and support services to Genuity. In connection with the proposed initial public offering of Genuity's shares of Class A common stock, Genuity will enter into (1) an Agreement for Transition Services under which GTE Service will continue to provide Genuity with services such as accounting and cash processing, billing and collection processing, human resource services, benefits administration and real estate support services and (2) an Agreement for Information Technology Transition Services under which Genuity and GTE Service will provide each other with software and hardware support services.

In addition, GTE Service and Genuity will provide each other with wide area network support and computer programming and technical services, including the development of software interfaces and modifications and enhancements to existing systems.

Purchase, Resale and Marketing Agreement

Genuity plans to enter into a Purchase, Resale and Marketing Agreement under which Verizon will purchase services from Genuity, that will include Internet access, value-added e-business services and private line and asynchronous transfer mode transport services. Verizon will be permitted to use these services internally or resell the services on a stand-alone basis or as part of a bundled solution. Those services resold by Verizon may be co-branded with Genuity or may be branded without use of Genuity's marks. To the extent Genuity jointly markets services with Verizon, Genuity will do so in compliance with all applicable federal law. Genuity will not jointly market its services with Verizon in states in which Verizon would not have legal authority under applicable federal law to operate Genuity. Genuity has granted Verizon most favored customer pricing and volume-based discounts. Under the terms of the agreement, Verizon will purchase at least $500 million of Genuity's services over a five year period. In the event that Verizon has not purchased $200 million in services by the end of the third year of the contract, it would be required to pay to Genuity at that time the difference between the amount of services purchased to date and $200 million. Similarly, in the event Verizon has not purchased $500 million in services by the end of the fifth year of the contract, it would be required to pay to Genuity at that time the difference between the amount of services purchased to that date, including any shortfall payment made at the end of the third year, and $500 million. The minimum purchase commitment is reduced in the event Genuity does not comply with various obligations as to competitive pricing and other aspects of service, sale and delivery.

In conjunction with the Purchase, Resale and Marketing Agreement, Genuity also plans to provide to Verizon undersea cable capacity in the ARCOS-1 Caribbean Ring System and has committed to negotiate with Verizon with respect to obtaining capacity on the Americas III Cable Network currently under construction.

Intellectual Property Agreements

Genuity intends to enter into agreements with GTE Service in order to allocate rights relating to existing and future patents, software, other types of intellectual property and technical services.

Network Monitoring Agreement

Under the terms of an existing agreement, Genuity receives continual monitoring for some elements of Genuity's network infrastructure from GTE Network Services, including monitoring of network-enabling devices and processes to detect anomalies occurring in the network. The fees for monitoring services are fixed under the agreement and were negotiated based on historical costs and comparable market prices. The agreement may be terminated by Genuity on 90 days notice.

Real Estate Agreements

Genuity plans to enter into several agreements with Verizon to allocate space in various leased and owned properties between Genuity and Verizon. None of the properties involved are material to Genuity's operations or business. Provisions of each agreement, including the lease and sublease payment of rent terms, vary depending on the underlying lease at the specified property and the result of negotiations pertaining to specific issues at a specified property.

In order to effect a transition to a stand-alone company, GTE also has agreed to issue new guaranties and to continue existing guaranties in order to support Genuity's real estate obligations. GTE has agreed to continue to issue new guaranties until six months following the proposed initial public offering or the date on which both Standard & Poor's and Moody's publish a credit rating for Genuity, whichever occurs first. Genuity has agreed to pay GTE a commercially reasonable fee during the time the guaranties are in force.

Registration Rights Agreement

Immediately after the completion of Genuity's proposed initial public offering, under a Registration Rights Agreement dated , 2000, Verizon and its transferees or assignees will be entitled to cause Genuity to register shares of Class A common stock that are issued following conversion of either Genuity's Class B common stock or Genuity's Class C common stock. In addition, this agreement will provide Verizon with certain demand, piggyback and shelf registration rights after six months following the proposed initial public offering.

14. Subsequent Events

Recapitalization

On , 2000, Genuity completed a recapitalization. As part of the recapitalization, Genuity converted 1,000 shares of common stock issued and outstanding to 18,256,000 shares of Class B common stock.

In connection with the recapitalization, GTE will execute a recapitalization agreement in connection with its receipt of the Class B common stock. Under this agreement, GTE will exchange all of the shares of its Genuity common stock for such number of shares of Class B common stock that will equal 9.5% of the total number of shares of the common stock outstanding immediately after the completion of this initial public offering. The recapitalization agreement also includes provisions enabling Verizon to purchase additional shares of Class B common stock under certain circumstances. In addition, the recapitalization agreement contains provisions requiring us to obtain the consent of Verizon prior to taking actions such as making acquisitions with a purchase price exceeding 20% of Genuity's market capitalization, making any acquisitions with a purchase price in excess of $100 million or entering any joint venture which has a fair market value in excess of $100 million that is not closely related to Genuity's business, making any disposition, including the assumption of indebtedness in excess of 20% of Genuity's market capitalization, and certain restrictions on incurring indebtedness and other protective rights.

Common Stock

The shares of Genuity's Class A common stock, Class B common stock and Class C common stock are identical in all respects except for voting rights, conversion rights and as otherwise described below. The rights, preferences and privileges of holders of our Class A common stock, Class B common stock and Class C common stock are subject to the rights of the holders of shares of any other class of common stock that Genuity may authorize and issue and any series of preferred stock that Genuity may designate and issue in the future.

Voting Rights. Each share of Class A common stock and Class B common stock entitles the holder to one vote on each matter submitted to a vote of the stockholders. Each share of Class C common stock entitles the holder to five votes on each matter. Except as required by applicable law or as discussed below, the holders of the Class A common stock, Class B common stock and Class C common stock vote together as a single class on all matters submitted to a vote of Genuity's stockholders. So long as any shares of Class B common stock remain outstanding, the holders of Class B common stock, voting separately as a class, will have the right to elect one member of Genuity's board of directors.

Genuity is also required to obtain the consent of the holders of Class B common stock before taking specific actions, including making significant acquisitions or dispositions, entering into major business combinations, and incurring indebtedness or issuing additional equity securities in excess of specified limits.

Conversion. Immediately after the completion of the proposed initial public offering, Verizon will own all of the outstanding shares of Genuity's Class B common stock.

Although the ability of Verizon to convert its Class B common stock is limited by the proposal to the FCC, these shares by their terms are convertible at any time into either:

- a number of shares of Class A common stock equal to 10% of Genuity's total common stock immediately after the conversion; or
- 800 million shares of Class A common stock or, for Verizon or any of its affiliates and at their election, Class C common stock, which represents approximately 82% (or approximately 80% if the underwriters exercise in full the over-allotment option) of Genuity's shares of common stock outstanding immediately following the proposed initial public offering.

Under the proposal to the FCC:

- if Verizon has not eliminated Section 271 restrictions applicable to its operation of Genuity's business as to at least 50% of the Bell Atlantic in-region lines, Verizon can only convert its outstanding shares of Genuity's Class B common stock into shares of Genuity's Class A common stock that after the conversion will represent 10% of Genuity's total common stock then outstanding. If Verizon transfers the Class B common stock before meeting this 50% threshold, the transferee's conversion rights would be similarly limited;
- if Verizon has eliminated the applicable Section 271 restrictions as to at least 50% of Bell Atlantic in-region lines, it could transfer its shares of Class B common stock to one or more third parties who would then be able to convert them in the aggregate into 800 million shares of Class A common stock; and
- if Verizon has eliminated the applicable Section 271 restrictions as to 100% of Bell Atlantic in-region lines, subject to limited exceptions, Verizon or its affiliates could convert the Class B common stock into 800 million shares of Class A common stock or Class C common stock.

Under the proposal to the FCC, if Verizon has not eliminated the applicable Section 271 restrictions as to 100% of Bell Atlantic in-region lines on or before   , 2005, which date may be extended under certain conditions, Verizon's ability to convert the Class B common stock into 800 million shares of Class A or Class C common stock will expire. Verizon will continue to retain its right to convert its shares of Class B common stock into shares of Class A common stock representing 10% of Genuity's total common stock then outstanding. If Verizon has satisfied the applicable Section 271 restrictions as to 100% of Bell Atlantic in-region lines on or before that date, its ability to convert the Class B common stock into 800 million shares of Class A common stock or Class C common stock does not expire. The Class B common stock transferred by Verizon to a third party will not be subject to this expiration limitation.

The Class C common stock is convertible into Class A common stock at any time. Each share of Class C common stock will automatically convert into one share of Class A common stock if at any time the aggregate number of outstanding shares of Class C common stock, together with any shares of Class C common stock issuable upon conversion of Class B common stock, held by Verizon and its affiliates constitute less than 10% of Genuity's then outstanding common stock.

Verizon's Right to Acquire Additional Shares. If Verizon holds shares of Class A common stock and Class C common stock that in the aggregate exceed 70% of the total number of Genuity common stock, Verizon may acquire from Genuity a number of shares of Class A common stock so that Verizon will own shares of common stock equal to 80% of the total number of Genuity shares of common stock.

Liquidation. In the event of any dissolution, liquidation, or winding up of Genuity's affairs, whether voluntary or involuntary, the holders of the Class A common stock, the Class B common stock and the Class C common stock will be entitled to share ratably, in proportion to the number of shares they represent of Genuity's outstanding common stock, in the assets legally available for distribution to stockholders, in each case after payment of all of Genuity's liabilities and subject to preferences that may apply to any series of preferred stock then outstanding. Genuity may not dissolve, liquidate or wind up its affairs without obtaining the consent of the holders of the outstanding shares of its Class B common stock.

Mergers and Other Business Combinations. If Genuity enters into a merger, consolidation or other similar transaction in which shares of its common stock are exchanged for or converted into securities, cash or any other property, the holders of each class of Genuity's common stock will be entitled to receive an equal per share amount of the securities, cash, or other property, as the case may be, for which or into which each share of any other class of common stock is exchanged or converted; provided that in any such merger, consolidation or other similar transaction, the holders of the shares of Class B common stock shall be entitled to receive, at their election, either (1) the merger consideration such holders would have received had they converted their shares of Class B common stock immediately prior to the consummation of such transaction or (2) a new security that is convertible into the merger consideration and has substantially identical voting and other rights as the Class B common stock. In any transaction in which shares of capital stock are distributed, the shares that are exchanged for or converted into the capital stock may differ as to voting rights and conversion rights only to the extent that the voting rights and conversion rights of Class A common stock, Class B common stock and Class C common stock differ at that time. As described above, the holders of the Class B common stock, voting separately as a class, must consent to any merger, consolidation or other similar transaction.

Other Provisions. The holders of Class A common stock, Class B common stock and Class C common stock are not entitled to preemptive rights. There are no redemption provisions or sinking fund provisions that apply to the Class A common stock, the Class B common stock or the Class C common stock.

Immediately following the closing of the proposed initial public offering, Genuity's authorized capital stock will consist of 1,600,000,000 shares of Class A common stock, par value $0.01 per share, 21,000,000 shares of Class B common stock, par value $0.01 per share, 800,000,000 shares of Class C common stock, par value $0.01 per share, and 0 shares of preferred stock, par value $0.01 per share. Immediately following the closing of the initial public offering, there will be outstanding: (1) 173,913,000 shares of Class A common stock; (2) options to purchase approximately 50,000,000 shares of Class A common stock; (3) 18,256,000 shares of Class B common stock, all of which will be held of record by Verizon as of that date; (4) no shares of Class C common stock; and (5) no shares of preferred stock.

Long-Term Stock Incentive Plan

Genuity's employees have historically been among those granted options to purchase common stock of GTE. The Long-Term Stock Incentive Plan was adopted by the board of directors. The Long-Term Stock Incentive Plan provides for the following awards based on the Class A common stock: stock options, stock appreciation rights, performance bonuses and other stock-based awards. Awards may be granted to employees of Genuity or any entity in which it owns at least a 10% interest. The Long-Term Stock Incentive Plan will be administered by the executive compensation committee of the Genuity board of directors. The administrator has the authority to determine eligibility, grant awards and make all other determinations under the plan.

Stock options granted under the Long-Term Stock Incentive Plan may have a term of up to 10 years and may be either incentive stock options, as defined in the Internal Revenue Code, or nonqualified stock options. Stock options granted may not be assigned other than by will or by applicable laws descent and distribution. The period or periods during which an award will be exercisable or remain outstanding, including any periods following termination of service, the manner of exercise and other details of awards will be determined by the administrator consistent with the Long-Term Stock Incentive Plan.

Genuity has reserved shares of Class A common stock for issuance under the 2000 Long-Term Stock Incentive Plan, subject to adjustment for stock splits and similar events. Concurrently with the initial public offering, the Company expects to issue options to purchase shares of Genuity's Class A common stock at an exercise price equal to the initial public offering price. The 2000 Long-Term Stock Incentive Plan will terminate at the annual shareholders' meeting in 2010, unless sooner terminated in accordance with the terms of the plan.

Outside Directors' Compensation Plan

Pursuant to the Outside Directors' Compensation Plan, non-employee directors who have agreed to serve on Genuity's board of directors at the time of the proposed initial public offering will receive, effective upon the completion of this offering, a $30,000 annual cash fee and options to purchase 30,000 shares of Class A common stock at an exercise price equal to the initial public offering price. In addition, non-employee directors who agree after the initial public offering to serve on the board of directors will receive, effective upon election to the board of directors, a $30,000 annual cash fee and options to purchase 30,000 shares of Class A common stock at an exercise price equal to the fair market value at the time of the grant. Options issued to the directors will vest in three equal installments. The first installment will immediately vest on the date of grant, but will not become exercisable until the day immediately before the first annual meeting of the stockholders. The second installment will vest and become immediately exercisable on the day immediately before the second annual meeting of the stockholders. The third installment will vest and become immediately exercisable on the day immediately before the third annual meeting of the stockholders. If a director is not elected to the board of directors at an annual meeting of the stockholders all unvested options will expire.

15. Pro Forma (unaudited)

On , 2000 GTE made a capital contribution of $ to Genuity.

The pro forma effect of GTE's capital contribution, estimated to be $178 million as of March 31, 2000 and the sale of Class A common stock, assuming the sale of 173,913,000 shares at an assumed initial public offering price of $13.50 per share, after deducting the underwriters fees and estimated offering expenses payable by Genuity, has been presented separately in Genuity's accompanying combined balance sheets and combined statements of changes in stockholder's equity.

GENUITY INC.

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

For the Years Ended December 31, 1997, 1998 and 1999 and the Three Months Ended March 31, 2000 (Unaudited) for Genuity and the Six Months Ended June 30, 1997 for the Predecessor (in thousands)

(Including Data Applicable to Unaudited Periods)

Column A	Column B	Column C		Column D	Column E
Description	Balance at beginning of period	Charged to costs and expenses	Charged to other accts.—describe	Deductions—describe	Balance at end of period
PREDECESSOR					
1997					
Allowance for doubtful accounts	$ 948	$1,840	$ 1(a)	$ (35)(c)	$2,754
GENUITY					
1997					
Allowance for doubtful accounts	$ 520	$1,898	$2,754(b)	$ (850)(c)	$4,322
1998					
Allowance for doubtful accounts	$4,322	$2,256	$ 131(a)	$(3,058)(c)	$3,651
1999					
Allowance for doubtful accounts	$3,651	$4,799	$ 201(a)	$(3,101)(c)	$5,550
March 31, 2000 (unaudited)					
Allowance for doubtful accounts	$5,550	$1,553	$ 52(a)	$(2,679)(c)	$4,476

(a) Represent bad debt recoveries

(b) Represents the impact of acquiring the Predecessor

(c) Represent write-offs of uncollectible receivable balances

173,913,000 Shares

Class A Common Stock

GENUITY

$ PER SHARE

MORGAN STANLEY DEAN WITTER   SALOMON SMITH BARNEY

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. Other Expenses of Issuance and Distribution.

The following table sets forth the various expenses in connection with the sale and distribution of the securities being registered, other than the underwriting discounts and commissions. All amounts shown are estimates, except the Securities and Exchange Commission Registration Fee and the National Association of Securities Dealers, Inc. Filing Fee.

Securities and Exchange Commission Registration Fee	$ 792,000
National Association of Securities Dealers Filing Fee	30,500
Nasdaq National Market Listing Fee	95,000
Blue Sky Fees and Expenses	20,000
Transfer Agent and Registrar Fees	100,000
Accounting Fees and Expenses	1,850,000
Directors and Officers Liability Insurance	870,000
Legal Fees and Expenses	1,300,000
Printing Expenses	500,000
Miscellaneous	449,044
Total	$6,006,544

ITEM 14. Indemnification of Directors and Officers.

Section 145 of the Delaware General Corporation Law authorizes a court to award, or the board of directors of a corporation to grant, indemnity to directors and officers in terms sufficiently broad to permit indemnification under some circumstances for liabilities, including reimbursement for expenses incurred, arising under the Securities Act of 1933.

As permitted by the Delaware General Corporation Law, the certificate of incorporation of the Registrant provides that its directors shall not be liable to the Registrant or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent that the exculpation from liabilities is not permitted under the Delaware General Corporation Law as in effect at the time the liability is determined. As permitted by the Delaware General Corporation Law, the certificate of incorporation of the Registrant also provides that the Registrant shall indemnify its directors to the full extent permitted by the laws of the State of Delaware.

The Registrant is in the process of obtaining policies of insurance under which coverage will be provided (a) to its directors and officers against loss arising from claims made by reason of breach of fiduciary duty or other wrongful acts, including claims relating to public securities matters and (b) to the Registrant with respect to payments which may be made by the Registrant to these officers and directors pursuant to the above indemnification provision or otherwise as a matter of law.

The Underwriting Agreement provides for the indemnification of officers and directors of the Registrant by the Underwriters against some types of liability.

ITEM 15. Recent Sales of Unregistered Securities.

In the three fiscal years prior to the effective date of this Registration Statement, we have issued and sold the following unregistered securities:

On September 12, 1997, Genuity issued and sold 500 shares of its common stock, par value $1.00 per share, to GTE Corporation for an aggregate price of $500.

On   , 2000, Genuity issued 18,256,000 shares of its Class B common stock, par value $0.01 per share to GTE Corporation in exchange for 500 shares of its common stock, par value $1.00 per share, held by GTE Corporation.

The sales and issuances of securities listed above, other the sales and issuances in Item , were deemed to be exempt from registration under Section 4(2) of the Securities Act or Regulation D thereunder as transactions not involving a public offering. The sales and issuances of securities listed above in Item were deemed to be exempt from registration under the Securities Act by virtue of Rule 701 promulgated under Section 3(b) of the Securities Act of 1933 as transactions pursuant to compensation benefit plans and contracts relating to compensation. All of the foregoing securities are deemed restricted securities for purposes of the Securities Act.

ITEM 16. Exhibits and Financial Statement Schedules.

(a) The following exhibits are filed herewith:

Exhibit Number	Exhibit Title
1.1	Form of Underwriting Agreement*
3.1	Certificate of Incorporation*
3.2	Amended and Restated Certificate of Incorporation (To Be Filed Prior To Closing Of Offering)*
3.3	Amended and Restated By-laws*
4.1	Specimen Class A Common Stock Certificate
5.1	Opinion of Ropes & Gray*
10.1	2000 Long-Term Stock Incentive Plan
10.2	Outside Directors' Compensation Plan
10.3	IRU Agreement dated as of May 2, 1997 by and between Qwest Communications Corporation and GTE Intelligent Network Services Incorporated(1)
10.4	First Amendment to IRU Agreement dated as of August 13, 1997(1)
10.5	Second Amendment IRU Agreement dated as of May 29, 1998(1)
10.6	Third Amendment to IRU Agreement dated as of November 16, 1998(1)
10.7	Fourth Amendment to IRU Agreement dated as of February 5, 1999(1)
10.8	Network Services Agreement by and between America Online, Inc. and BBN Corporation effective as of December 31, 1999(1)
10.9	Form of Agreement for Transition Services between GTE Service Corporation and Genuity Inc.(2)
10.10	Form of Agreement for IT Transition Services between GTE Service Corporation and Genuity Inc.(2)
10.11	Form of Purchase, Resale and Marketing Agreement between Bell Atlantic Corporation and Genuity Inc.(1)(2)
10.12	Form of Software License Agreement between GTE Service Corporation and Genuity Inc.(2)
10.13	Form of Software Development and Technical Services Agreement between GTE Service Corporation and Genuity Inc.(2)
10.14	Form of Intellectual Property Ownership and Cross License Agreement between GTE Service Corporation and Genuity Inc.(2)
10.15	Form of Facility Lease Agreement(2)
10.16	Form of Sublease Agreement(2)
10.17	Form of Assignment and Assumption of Lease(2)
10.18	Form of Financial Support Agreement Regarding Guaranty of Obligation between GTE Corporation and Genuity Inc.(2)
10.19	Form of Request by Genuity Inc. for Continuation of Financial Support after Separation between GTE Corporation and Genuity Inc.(2)
10.20	Master Services Agreement dated as of September 14, 1999 between GTE Network Services and GTE Global Network Incorporated
10.21	Form of First Amendment to Master Services Agreement between GTE Network Services and GTE Incorporated(2)
10.22	Form of Second Amendment to Master Services Agreement between GTE Network Services and GTE Incorporated(2)
10.23	Executive Deferral Plan
10.24	2000 Executive Incentive Plan
10.25	Executive Employment Agreement between Genuity Inc. and Paul R. Gudonis*

Exhibit Number	Exhibit Title
10.26	Executive Employment Agreement between Genuity Inc. and Joseph C. Farina*
10.27	Executive Employment Agreement between Genuity Inc. and Daniel P. O'Brien*
10.28	Executive Employment Agreement between Genuity Inc. and Ira H. Parker*
10.29	Consent of Philippe P. Dauman*
10.30	Consent of Duncan M. Davidson*
10.31	Consent of John W. Gerdelman*
10.32	Consent of Debra L. Lee*
10.33	Consent of Michael T. Masin*
21.1	Subsidiaries*
23.1	Consent of Ropes & Gray (Exhibit 5.1)*
23.2	Consent of Arthur Andersen LLP
24.1	Power of Attorney (Signature Page)†
27.	Financial Data Schedule

* To Be Filed By Amendment.

† Previously Filed.

(1) There are portions of these agreements that have been omitted pursuant to a request for confidential treatment filed separately with the Securities and Exchange Commission.
(2) These agreements are being filed in the form in which they will be executed immediately upon the closing of the merger of Bell Atlantic Corporation and GTE Corporation.

Other financial statement schedules are omitted because the information called for is not required or is shown either in the financial statements or the notes thereto.

ITEM 17. Undertakings.

(a) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the provisions described under ''Item 14—Indemnification of Directors and Officers'' above, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission this indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against these liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by the director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether the indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of the issue.

(b) The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For the purposes of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of these securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(c) The undersigned Registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement, certificates in the denominations and registered in the names required by the underwriters to permit prompt delivery to each purchaser.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant has duly caused this Amendment No. 2 to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Burlington, State of Massachusetts, on the 24th day of May, 2000.

GENUITY INC.

By /s/ PAUL R. GUDONIS

Paul R. Gudonis
Chief Executive Officer

POWER OF ATTORNEY

Pursuant to the requirements of the Securities Act of 1933, as amended, this Amendment No. 2 to the Registration Statement has been signed by the following persons in the capacities and on the date indicated.

Signature	Title	Date
/s/ PAUL R. GUDONIS Paul R. Gudonis	Chief Executive Officer and Director *(Principal Executive Officer)*	May 24, 2000
* Charles J. Gibney	Director	May 24, 2000
* James L. Freeze	Director	May 24, 2000
* David B. Monaghan	Vice President, Finance *(Principal Financial Officer and Principal Accounting Officer)*	May 24, 2000

/s/ PAUL R. GUDONIS

*Paul R. Gudonis, Attorney-in-Fact

EXHIBIT INDEX

Exhibit Number	Exhibit Title
1.1	Form of Underwriting Agreement*
3.1	Certificate of Incorporation*
3.2	Amended and Restated Certificate of Incorporation (To Be Filed Prior To Closing Of Offering)*
3.3	Amended and Restated By-laws*
4.1	Specimen Class A Common Stock Certificate
5.1	Opinion of Ropes & Gray*
10.1	2000 Long-Term Stock Incentive Plan
10.2	Outside Directors' Compensation Plan
10.3	IRU Agreement dated as of May 2, 1997 by and between Qwest Communications Corporation and GTE Intelligent Network Services Incorporated(1)
10.4	First Amendment to IRU Agreement dated as of August 13, 1997(1)
10.5	Second Amendment IRU Agreement dated as of May 29, 1998(1)
10.6	Third Amendment to IRU Agreement dated as of November 16, 1998(1)
10.7	Fourth Amendment to IRU Agreement dated as of February 5, 1999(1)
10.8	Network Services Agreement by and between America Online, Inc. and BBN Corporation effective as of December 31, 1999(1)
10.9	Form of Agreement for Transition Services between GTE Service Corporation and Genuity Inc.(2)
10.10	Form of Agreement for IT Transition Services between GTE Service Corporation and Genuity Inc.(2)
10.11	Form of Purchase, Resale and Marketing Agreement between Bell Atlantic Corporation and Genuity Inc.(1)(2)
10.12	Form of Software License Agreement between GTE Service Corporation and Genuity Inc.(2)
10.13	Form of Software Development and Technical Services Agreement between GTE Service Corporation and Genuity Inc.(2)
10.14	Form of Intellectual Property Ownership and Cross License Agreement between GTE Service Corporation and Genuity Inc.(2)
10.15	Form of Facility Lease Agreement(2)
10.16	Form of Sublease Agreement(2)
10.17	Form of Assignment and Assumption of Lease(2)
10.18	Form of Financial Support Agreement Regarding Guaranty of Obligation between GTE Corporation and Genuity Inc.(2)
10.19	Form of Request by Genuity Inc. for Continuation of Financial Support after Separation between GTE Corporation and Genuity Inc.(2)
10.20	Master Services Agreement dated as of September 14, 1999 between GTE Network Services and GTE Global Network Incorporated
10.21	Form of First Amendment to Master Services Agreement between GTE Network Services and GTE Incorporated(2)
10.22	Form of Second Amendment to Master Services Agreement between GTE Network Services and GTE Incorporated(2)
10.23	Executive Deferral Plan
10.24	2000 Executive Incentive Plan
10.25	Executive Employment Agreement between Genuity Inc. and Paul R. Gudonis*
10.26	Executive Employment Agreement between Genuity Inc. and Joseph C. Farina*
10.27	Executive Employment Agreement between Genuity Inc. and Daniel P. O'Brien*
10.28	Executive Employment Agreement between Genuity Inc. and Ira H. Parker*
10.29	Consent of Philippe P. Dauman*
10.30	Consent of Duncan M. Davidson*
10.31	Consent of John W. Gerdelman*
10.32	Consent of Debra L. Lee*
10.33	Consent of Michael T. Masin*
21.1	Subsidiaries*
23.1	Consent of Ropes & Gray (Exhibit 5.1)*
23.2	Consent of Arthur Andersen LLP
24.1	Power of Attorney (Signature Page)†
27.	Financial Data Schedule

* To Be Filed By Amendment.

† Previously Filed.

(1) There are portions of this agreement that have been omitted pursuant to a request for confidential treatment filed separately with the Securities and Exchange Commission.

(2) These agreements are being filed in the form in which they will be executed immediately upon the closing of the merger of Bell Atlantic Corporation and GTE Corporation.

EXHIBIT 23.2

CONSENT OF INDEPENDENT ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our reports (and to all references to our Firm) included in or made a part of this Registration Statement.

/s/ Arthur Andersen LLP

Boston, Massachusetts
May 20, 2000